FIRST HOUSING
SERVICE • FINANCE • COMPLIANCE

October 15, 2014

Mr. Todd Fowler
Florida Housing Finance Corporation
City Centre Building
227 North Bronough Street, Suite 5000
Tallahassee, Florida 32301-1329

Re: Peacock Run – 1st Mortgage Refinancing/Subordination of MMRB LURA, HC ELIHA and SAIL ELI Loan Documents/Renegotiation of SAIL ELI Loan Terms/Release of Collateral

MMRB 2002 Series H1 & H2/GUAR HUD Risk Sharing 067-98028/4% HC 2002-522C/SMI-24/RFP 2010-16-19 SAIL ELI

Dear Mr. Fowler:

First Housing reviewed correspondence dated July 11, 2014 and September 15, 2014 from Yashpal Kakkar, President of Creative Choice Homes XX, Inc., which included the following information and requests:

1. The correspondence indicates the intent of Creative Choice Homes XX, Ltd. ("Borrower"), to refinance the first mortgage for Peacock Run and simultaneously pay off the first mortgage note that is credit enhanced by the Florida Housing Finance Corporation ("FHFC") Guarantee Fund Program with HUD Risk Sharing.

2. It was requested that FHFC agree to extend the maturity date of the existing Subordinate Mortgage Initiative ("SMI") loan in the original principal amount of $605,345.52 so that the maturity date is 90 days after the maturity date of the new first mortgage loan and extend the payment of any deferred interest that becomes due under that loan.

3. It was requested that FHFC agree to allow the SMI loan and the State Apartment Incentive Loan Extremely Low Income ("SAIL ELI") loan in the original principal amount of $1,050,000 to be subordinated to the new first mortgage loan.

4. It was requested that FHFC agree to convert the SAIL ELI loan back to a forgivable loan with 6.67% of the loan forgiven annually over the original fifteen (15) year term.

5. It was requested that FHFC release approximately 12 acres of vacant land currently encumbered by FHFC loan lien(s).

6. It was requested that FHFC subordinate the Multifamily Mortgage Revenue Bond ("MMRB") Land Use Restriction Agreement ("LURA") and the Housing Credit ("HC") Extended Low Income Housing Agreement ("ELIHA") to the new first mortgage.

On behalf of FHFC, First Housing has reviewed the requests, performed certain due diligence, and formulated recommendations and conditions which are contained at the end of this report. For purposes of this analysis, First Housing has reviewed the following:

- Borrower Correspondence dated July 11, 2014
- RFP 2010-16 SAIL ELI and Rule 67-48.010(15) F.A.C.
- Borrower Audited Financial Statements for Year Ended December 31, 2013
- Pillar/Freddie Mac Mortgage Application
- SAIL ELI Loan Credit Underwriting Report dated January 12, 2011, Credit Underwriting Update Letter dated August 30, 2013
- SAIL ELI Loan Closing Letter dated March 28, 2011
- SAIL ELI RFP 2010-16-19 Mortgage Security Agreement and Restrictive Covenants, and Promissory Note both dated March 28, 2011
- Borrower's Sources and Uses of Funds Schedule
- FHFC Past Due Report dated August 22, 2014
- FHFC Noncompliance Report dated August 22, 2014
- FHFC Occupancy Report dated June 2014
- FHFC Invoice for the SMI loan payoff dated October 14, 2014
- Annual Management Review and Physical Inspection

In addition, First Housing has had various conversations with FHFC staff and the Borrower's representative regarding the proposed refinancing. Our findings are as follows:

Background

Peacock Run is a 264 unit multifamily development located in Port St. Lucie, St. Lucie County, Florida. The Borrower is a Florida limited partnership formed to own and operate Peacock Run. The general partner with 0.01% ownership interest is Creative Choice Homes XX, Inc. The limited partner with 99.99% ownership interest is MMA Affordable Housing Fund 3, LP.

The development originally received a first mortgage MMRB financed loan from FHFC. On July 31, 2002, the Bonds were issued in two series (Tax-Exempt Multifamily Mortgage Revenue Bonds, 2002 Series H1 - $9,690,000, and Taxable Multifamily Mortgage Revenue Bonds, 2002 Series H2 - $3,090,000) by FHFC totaling $12,780,000.) Proceeds from the sale of the Bonds funded a first mortgage note in the same amount. The bonds are collateralized by reserves held by the Trustee and a mortgage lien on the rental property. Interest accrues at 6.5% per annum on both the tax exempt and taxable bonds and is payable monthly. Principal and interest payments are due semi-annually. Any unpaid principal and accrued interest are due and payable at the maturity date on July 15, 2042. The subject is credit enhanced by the FHFC Guarantee Fund with HUD Risk Sharing. As of September 30, 2013, the loan balance was $10,658,886.

On July 14, 2010, the Borrower entered into a second mortgage SMI loan note with FHFC in the principal amount of $605,345.52 secured by real property and improvements. The note bears interest at 5% simple interest per annum with unpaid principal and interest due at maturity on August 15, 2020. Interest only accrued monthly through July 15, 2014, when all accrued interest was due and payable. Beginning August 15, 2014, principal and interest are payable in monthly installments of $3,995 through August 15, 2020 when the final balloon payment is due. The mortgage balance as of September 4, 2014 was $605,345.52. An FHFC invoice dated September 4, 2014 indicates an outstanding balance due on receipt of $102,560.42 which includes balloon interest, late fees and charges for July and August 2014. Additionally, $3,995.01 of principal and interest came due on September 15, 2014.

On March 28, 2011, the Borrower closed on a SAIL ELI loan from FHFC in the amount of $1,050,000. The non-amortizing loan bears no interest and is secured by real property and improvements. The entire unpaid principal is due on March 28, 2026. The loan shall automatically be extended for an additional 15 years if no default occurs and as long as the development remains in compliance with all SAIL ELI program requirements. The extended maturity date is March 28, 2041. As of December 31, 2013, the SAIL ELI loan balance was $1,050,000. The SAIL ELI funds were held by the Trustee and used to pay off an additional principal portion of the bonds on August 1, 2012. The remaining balance was subsequently re-amortized, reducing the monthly payment by $6,631 per month.

The development also received an allocation of HC.

Operation of the subject is restricted by terms and conditions detailed in various loan documents, including but not limited to Florida Housing's MMRB LURA, HC ELIHA and SAIL ELI Loan documents.

The MMRB LURA requires that 40% (106 units) of the units be set aside for tenants earning 60% or less of the Area Medium Income ("AMI") for a period that is 10 years past the later of 15 years after the date 50% of units are first occupied, the first day MMRB are no longer outstanding, or the date on which any assistance under Section 8 of the Housing Act of 1937 terminates. The set-aside for the Housing Credits ("HC") is 100% of the units for tenants earning 60% or less of AMI for a period of 30 years. The SAIL ELI Loan requires that 5% of the units (14 units) be set aside for tenants earning 33% or less of the AMI for the first 15 years. At the end of the first fifteen (15) years, the ELI units are to revert back to the set aside committed to in the original MMRB LURA or HC ELIHA for the remaining fifteen years of the thirty (30) year compliance period. The set-aside for Special Needs Households is 50% (7 units) of the total ELI units which does not exceed the maximum allowed 10% of the development's total units.

The development team was not reported on Florida Housing's August 22, 2014 Past Due Report. The development team had the following issues reported on the August 22, 2014 Asset Management Noncompliance Report:

- Caribbean West – HC & HOME – Failure to meet uniform physical condition standards for site and for buildings

- Park Terrace – HC - Failure to meet uniform physical condition standards for site

- Tuscan Isle – MMRB, HC & SMI - Failure to meet uniform physical condition standards for units, common areas and building systems including health and safety standards. Failure to provide required tenant programs and services. Failure to properly recertify eligibility. Failure to document tenant eligibility upon initial occupancy

- Peacock Run – MMRB, HC, SMI, SAIL ELI – monetary default due to failure to pay SMI loan due on July 15, 2014

Per the June 2014 FHFC occupancy report, the development was 95.83% occupied.

First Housing's Annual Management Review and Physical Inspection performed January 29, 2014, reported occupancy of 80% and the property was found to be in non-compliance. After follow up and management response, the review was closed out on June 6, 2014.

Refinancing Overview

The refinancing of the existing first mortgage loan is permitted by the underlying SAIL ELI loan documents. FHFC Board approval is required, however. Rule 67-48.0105(5) F.A.C. states that the "Board shall approve requests for mortgage loan refinancing only if Development Cash Flow is improved, the Development's economic viability is maintained, the security interest of the Corporation is not adversely affected, and the Credit Underwriter provides a positive recommendation."

First Housing reviewed a Mortgage Loan Application dated, May 20, 2014, for first mortgage refinancing originated by Pillar Multifamily, LLC ("Pillar") and sold to Freddie Mac under the provisions of Freddie Mac's Capital Markets Execution Program. A Freddie Mac refinancing pro forma indicates the existing first mortgage will be replaced with a new first mortgage of $9,680,000. Terms include a maximum loan to value of 80%, not less than 1.25x debt service coverage ratio based on the final interest rate, an 84-month loan term, 0% or 12 months interest only / 30 year amortization post interest only period *(approval of interest only subject to final underwriting and successful refinance test per Freddie Mac Guidelines)*, and a fixed interest rate equal to 227 basis points over the 7-Year U.S. Treasury Rate. As of September 3, 2014, the 7-Year U.S. Treasury Rate was 2.11% resulting in an "all in" rate of 4.38% which is a more favorable rate than the 6.5% existing financing rate.

Freddie Mac conditions will require that FHFC execute a Subordination Agreement of the SAIL ELI loan. Freddie Mac will also require certain subordinate loan document amendments to conform to Freddie Mac standards. The MMRB LURA and HC ELIHA must also be subordinated, as applicable, to certain Freddie Mac documents.

Annual debt service for the refinanced first mortgage loan is currently estimated to be $580,612 which is $260,316 less than the current debt service. Cash flow will be improved, the subject's economic viability will be maintained, and Florida Housing's risk associated with the FHFC Guarantee Fund Program will be eliminated. The SAIL ELI Loan is currently in a subordinate lien position behind a $12,780,000 original principal balance first mortgage loan. The refinanced first mortgage loan is anticipated to be in the amount of $9,685,000. Florida Housing's security position will not be adversely affected. The amount of the new first mortgage, along with additional equity from the Borrower, will payoff the existing first mortgage loan balance, the SMI loan principal and interest and closing costs.

SAIL ELI Loan Renegotiation

Request for Proposals 2010-16 (the "RFP"), dated November 19, 2010, required Applicants to provide additional ELI set-aside units by converting units equal to or greater than 60% Area Median Income ("AMI") already committed to in their MMRB LURA or HC ELIHA. The Borrower agreed to set aside 14 units at 33% AMI and received $75,000 per ELI unit for a total of $1,050,000. The Borrower also committed to set-aside 50% of the ELI units (7 units) for Special Needs Households. The RFP provided that the SAIL ELI loans shall be non-amortizing at 0% simple interest per annum over the life of the loan, with 6.67% of the principal forgivable annually provided the units for which the SAIL ELI loan amount was awarded are targeted to ELI Households for at least fifteen (15) years. At the conclusion of the fifteen year term, the new ELI units will revert back to the original AMI restriction contained in the original MMRB LURA or HC ELIHA.

On January 11, 2011, First Housing submitted a recommendation for the $1,050,000 SAIL ELI loan approval. The recommendation was approved by the FHFC Board at its January 21, 2011 meeting. The SAIL ELI loan closed on March 28, 2011. The Borrower requested that the SAIL ELI loan be forgiven at maturity provided the ELI set-asides were maintained for the 15-year term. At closing, the Borrower requested that the 15-year term of the SAIL ELI loan be extended for an additional fifteen (15) years for a total of thirty (30) years. At the end of the first fifteen (15) years, the ELI units are to revert back to the set asides committed to in the original MMRB LURA or HC ELIHA for the remaining fifteen (15) years of the thirty (30) year compliance period.

Included in the July 11, 2014 correspondence, the Borrower requested FHFC to convert the SAIL ELI back to a forgivable loan with 6.67% of the loan forgiven annually over the original fifteen (15) year term. Therefore, per the Borrower's request, $70,000 or 6.67% of the original SAIL ELI loan would be forgiven for each full year of the original fifteen (15) year period as long as the required SAIL ELI set aside units are maintained. No credit is to be given for a portion of a year. If the request is approved, the SAIL ELI loan will be modified to include the stipulation that so long as the Development maintains its required ELI set asides as committed, the principal balance of the Note shall be reduced at a rate of 6.67% per year for the original fifteen (15) year term of the SAIL ELI Compliance Period, unless acceleration is made by FHFC pursuant to the terms of the Note or the other SAIL ELI loan documents. If the request is approved, $70,000 would have been forgiven on December 31, 2012 and 2013 and the current principal balance of the SAIL ELI loan would be $910,000.

<u>Overall Source and Use of Funds</u>

The Borrower has provided First Housing with an estimate of the overall sources and uses of funds:

Sources & Uses		
Uses:		Amount
First Mortgage - Tax Exempt Bonds		10,635,000.00
SMI Interest		95,000.00
SMI Loan		605,000.00
Less release of escrows (approx.)		(485,000.00)
Closing Costs		150,000.00
Total Uses		**11,000,000.00**
Sources:		
Pillar Finance - Freddie Mac		9,685,000.00
Additional funding by Borrower		1,315,000.00
Total Sources		**11,000,000.00**

These costs are based on estimates provided by the Borrower which appear reasonable at this time.

Summary

First Housing concludes that conditions for refinancing approval, as set forth in Rule 67-48.010(15) F.A.C. and RFP 2010-16 have been met, subject to the recommendations and conditions below. Further, proceeds of the refinancing along with the transfer of certain existing reserves held by the Trustee will be utilized to satisfy the existing FHFC-guaranteed first mortgage loan, SMI loan and pay related financing costs. Any shortfalls will result in an equity contribution requirement by the Borrower at closing.

Recommendations

1. First Housing recommends the first mortgage refinancing subject to verification of the final loan terms prior to loan closing. The refinance is allowed under FHFC Rules, the terms provide for increased development cash flow when compared with the existing financing and the simultaneous pay off the FHFC Guarantee Fund Program's with HUD Risk Sharing first mortgage note reduces FHFC exposure and risk.

2. First Housing does not recommend allowing the extension of the maturity date of the SMI loan or extension of the payment of any deferred interest due. We recommend the SMI loan be paid in full at closing in accordance with the existing loan documents.

3. First Housing recommends subordination of the existing SAIL ELI loan in the original principal amount of $1,050,000 to the new first mortgage loan and the renegotiation of the SAIL ELI loan back to a forgivable loan with 6.67% of the loan forgiven annually over the original fifteen (15) year term.

4. First Housing recommends that FHFC release approximately 12 acres of encumbered vacant land at the development site subject to the Borrower agreeing to use the proceeds upon sale to pay down other FHFC debt, further review and approval by FHFC, their Counsel and the Servicer of the specifics of the release of collateral. In no case will the release be allowed prior to closing the refinance of the mortgage and should the refinancing not close, FHFC approval of the release is deemed null and void.

5. First Housing recommends certain document amendments to conform to Freddie Mac standards. The MMRB LURA and HC ELIHA must be subordinated, as applicable, to certain Freddie Mac documents.

6. Modification of any other loan documents required to effectuate the refinancing.

<u>Closing of the transaction is subject to the following conditions:</u>

1. Review and approval of all loan documents consistent with the terms outlined above by Florida Housing and its legal counsel

2. Consent of the HC equity provider

3. Satisfactory resolution of any outstanding past due and noncompliance items

4. Payment of any outstanding arrearages to the Corporation, its legal counsel, Servicer or any agent or assignee of the Corporation for past due issues applicable to the development team (Applicant or Developer or Principal, Affiliate or Financial Beneficiary, as described in 67-48.0075 (5) F.A.C., of an Applicant or a Developer)

5. Prepayment of any required compliance monitoring fees

6. Repayment of the SMI loan in full including all outstanding principal, interest and fees

7. Review of final first mortgage loan terms and confirmation that all requirements set forth in F.A.C. Rule 67-48.010(15) for approval have been met

8. Receipt of a non-refundable renegotiation fee equal to one-half of one percent of the SAIL ELI (RFP 2010-16-19) principal amount on the date of closing and,

9. All other due diligence required by FHFC and its legal counsel.

Prepared by:

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